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CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

MORI/CDF Pages 1-36

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NO FOREIGN DISSEM

25X1

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

1 February 1963

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T H E W E E K I N B R I E F
 (Information as of 1200 EST 31 Jan)

SOVIET FOREIGN POLICY DEVELOPMENTS Page 3

Soviet commentators maintained a cautious stance last week regarding developments in the nuclear test ban talks and the Common Market. A Soviet official in Geneva hinted privately, however, that Moscow believes progress toward a test ban may open the way for renewed high-level negotiations on a Berlin settlement. He reaffirmed the USSR's desire for a "thaw" in East-West relations and suggested that a foreign ministers' meeting to sign a test ban treaty would provide a suitable opportunity for discussing other problems such as Berlin. (Secret No Foreign Dissem)

SINO-SOVIET RELATIONS Page 4

Communist China's first editorial comment on Sino-Soviet issues since the East German party congress was no less abusive than its propaganda before Khrushchev's call for a cessation of polemics. The latest round in the contest between the two nations has further demonstrated the lack of common ground upon which they can stand. (Confidential)

THE SINO-INDIAN BORDER DISPUTE Page 5

The interpretations of the loosely worded Colombo conference proposals made public in the past week by Peiping and New Delhi provide little ground for discussions. New Delhi is giving increasing play to the warmth and closeness of its relations with Moscow but, at Soviet request, has promised to avoid publicity concerning the recent arrival of four crated MIG-21 fighters in Bombay. (Secret No Foreign Dissem)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

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THE CUBAN SITUATION Page 7

With continuing Soviet military assistance and economic support, the Castro regime appears to be concentrating on an aggressive campaign of subversion in Latin America. Havana has announced that about 400 Soviet agricultural technicians are coming to Cuba over the next three months. Castro's guerrilla training program for Latin Americans is continuing, and Cuban leaders have given the impression that they consider the possibilities for subversive action to be especially promising in Venezuela. (Secret No Foreign Dissem)

SOVIET ECONOMY IN 1962 Page 9

Soviet heavy industrial development continued in 1962 to receive clear priority over consumer goods production and agriculture. In general, trends of the preceding year were maintained. There are signs of continuing difficulties, particularly in investment in certain key industries. (Confidential)

SINO-MONGOLIAN RELATIONS Page 12

There has been some cooling in Sino-Mongolian relations as a result of Mongolia's role as Khrushchev's advocate in Asia. However, Chinese aid programs continue, and Peiping has not abandoned its practice of sending workers to labor-short Mongolia. Ulan Bator is attempting to expand its diplomatic contacts beyond its two quarreling neighbors by pushing for recognition from nonbloc countries. (Confidential)

DEVELOPMENTS IN THE CONGO Page 13

Joseph Ileo, Leopoldville's new minister-resident in Elisabethville, has begun taking steps to reintegrate Katanga. Ileo has made it clear that his mission is to execute reintegration, not negotiate, and he is dealing firmly with Katangan attempts to obstruct him. Leopoldville is pressing hard for the introduction of additional Congo army forces into key cities in South Katanga, but is presently resisting Baluba tribal pressures for changes in Tshombé's government. Tshombé, trying to re-establish his authority, is insisting on rigid application of the UN reintegration plan and is trying to enlist the UN to referee differences between him and Leopoldville. (Confidential No Foreign Dissem)

INSTABILITY CONTINUES IN TOGO Page 15

The political situation in Togo has remained unstable since the assassination of President Olympio in mid-January. Behind Provisional President Grunitsky's weak leadership, the diverse factions represented in the cabinet and the military elements which staged the coup are involved in a power struggle. Grunitsky's authority has been undercut by the reluctance of countries in the moderate African group to extend diplomatic recognition. (Secret No Foreign Dissem)

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REFERENDUM IN IRAN Page 16

The Shah's overwhelming victory in Iran's reform program referendum on 26 January will encourage him to accelerate reforms and possibly to advance the date of national elections now planned for June or July. The regime mustered a 99.9-percent affirmative vote, partly by intimidating the mullahs, the landlords, and the National Front. They appear to be demoralized temporarily, and probably have lost many supporters. Trouble for the regime is in prospect when workers and peasants find that progress toward implementing the reforms is slower than they have been led to expect. (Secret No Foreign Dissem)

INDONESIAN INTENTIONS TOWARD MALAYSIA Page 17

Indonesia has announced a policy of "confrontation" with Malaya over the inclusion of the British Borneo territories in the projected Malaysia Federation. It reportedly is giving guerrilla training to both Indonesian and rebel elements, and a monthly training capacity of five or six hundred may have been reached. These moves have sharpened British and Malayan concern over Indonesian intentions in northern Borneo, and Britain has alerted troops in the UK and the Far East for movement to Borneo. (Secret No Foreign Dissem)

SOUTH KOREAN POLITICAL STRUGGLE Page 18

Former security chief Kim Chong-pil has emerged from a fight for control of the new government party with his power intact for the time being, if not strengthened. However, the factional struggle within the regime almost certainly will continue, with Kim's enemies biding their time for a new opportunity to attack his position. The open struggle will make it more difficult for the regime to maintain the facade of free elections this spring. (Secret No Foreign Dissem)

THE POLITICAL SITUATION IN ITALY Page 19

The parliamentary debate occasioned by the Communists' recent no-confidence motion in effect opened the campaign for national elections to be called some time this spring. Special attention in the debate focused on the new Italian defense position announced by Premier Fanfani following his Washington talks. The Nenni Socialists, in marked contrast to their position of a year ago, indicated no opposition to a NATO nuclear force. (Confidential No Foreign Dissem)

DENMARK'S FAEROE ISLANDS PROBLEM Page 20

The new coalition government in the semiautonomous Faeroe Islands is expected to exert pressure on the Danish Government to revise the Home Rule Law of 1948 and the status of US and NATO defense facilities in the islands. One of the two principal parties in the coalition wants almost complete independence and removal of NATO installations. Danish officials will probably insist that special elections be called before any drastic changes are made. (Confidential)

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BRAZIL'S NEW CABINET Page 21

Joao Goulart, who has recently received full presidential powers, appears to believe that he can strengthen leftist influences in Brazil without endangering the country's chances for sizable new economic aid from the United States. He has increased the number of leftists among his advisers as economic negotiations with Washington are about to begin. Brazil is seeking aid to avoid defaulting on its international obligations this spring. (Secret)

ARGENTINA'S FINANCIAL CRISIS Page 22

The Argentine Government's present financial resources are inadequate to meet either foreign or domestic obligations. It is giving priority to paying foreign debts to encourage new aid from abroad in the present crisis. Meanwhile both the government and businesses are behind in salary payments, unemployment is growing, and living costs are rising. The economic and social unrest are jeopardizing preparations for the general elections scheduled for this June. (Secret No Foreign Dissem)

SPECIAL ARTICLES**THE CHINESE COMMUNIST NAVY Page 1**

The Chinese Communist Navy, although numerically stronger than that of any other Asian country, is primarily a defensive force. Its largest vessels are four obsolescent Gordy-class destroyers acquired from the USSR before 1955, and no new construction of major vessels is likely in China unless Soviet assistance is resumed. The effectiveness of the submarine fleet, the fourth largest in the world, is limited by its apparent inability to engage in operations far from its bases. (Secret No Foreign Dissem)

TURKEY'S FIRST FIVE-YEAR PLAN Page 4

Turkey will be making its first systematic effort to mobilize its resources when it officially puts its Five-Year Plan for economic development into effect on 1 March. By accelerating the rate of private and government investment, it aims to achieve a 7-percent annual growth in GNP. Recommendations for new taxes to finance the plan have been watered down, however, and an international consortium's offer of aid has fallen far short of Turkish hopes. Nevertheless, the Inonu government seeks early visible accomplishments that will provide the psychological stimulus necessary for the plan's success. (Confidential)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SOVIET FOREIGN POLICY DEVELOPMENTS**

25X1 Moscow maintained a cautious stance last week regarding developments in the nuclear test-ban talks and the Common Market. [redacted]

25X1 [redacted] Moscow believes progress toward a test ban may open the way for renewed high-level negotiations on a Berlin settlement. [redacted] the USSR's desire for a "thaw" in East-West relations and suggested that a foreign ministers' meeting to sign a test-ban treaty would provide a suitable opportunity for discussing other problems such as Berlin.

25X1 The Soviet press continued to express optimism regarding prospects for a test-ban treaty. In contrast to Moscow's public insistence that it cannot grant further concessions, [redacted]

25X1 [redacted] said that although the USSR cannot accept 8 to 10 on-site inspections, it might consider four such inspections "reasonable." He also implied that Moscow would not rigidly insist on the maximum of three automatic seismic stations indicated in Khrushchev's recent letters to President Kennedy. A further hint of flexibility was contained in a casual remark by the [redacted]

25X1 [redacted] that the USSR "might compromise on seven" inspections.

High-level Soviet officials, however, continued to indicate pessimism regarding an early agreement. Soviet President Brezhnev complained to Ambassador Kohler on 24 January that US "delaying" was due more to diplomatic than to technical reasons.

Moscow reported without comment President Kennedy's order postponing underground tests in Nevada during the present talks. The Soviet press has not repeated Gromyko's 21 January insistence on French participation in a test-ban treaty, but Moscow radio noted it is not difficult to foresee De Gaulle's "obstruction" of an agreement.

Common Market

Moscow has reacted along familiar lines to the breakdown of the UK-EEC talks in Brussels. Soviet propagandists have described it as a graphic revelation of the inherent contradictions in the NATO partnership and implied that West Germany, acting out of purely selfish motives, was the principal advocate of compromise between France and Great Britain. Soviet commentators took much the same line they followed in elaborating on Adenauer's trip to France, claiming that West Germany's sole interest was in the acquisition of nuclear arms and that Bonn would play both sides of the Atlantic fence in order to achieve this ambition.

The USSR has avoided strong attacks on French policy and direct criticism of De Gaulle personally. Moscow has apparently decided to avoid committing itself to a clear line of attack pending further developments in the Common Market issue and to retain its freedom of maneuver in any future discussions with the French leader on larger East-West issues.

Berlin and Germany

Although there has been no significant authoritative commentary on the Berlin and German issues during the past week, Soviet propagandists have attempted to rebut alleged Western assertions that the German question has lost its urgency. Bloc commentators continue to stress that Khrushchev's latest proposals provide an acceptable "compromise" solution to the Berlin question, and Red Star on 27 January claimed that "points of rapprochement are beginning to crystallize in the position of both sides."

Soviet propaganda carefully avoids the question of whether the US-Soviet discussions on these issues should be resumed soon but, in implicit allusion to the current test-ban negotiations, points up the intrinsic value of negotiations in resolving outstanding East-West differences. (SECRET NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SINO-SOVIET RELATIONS**

Communist China's first editorial comment on Sino-Soviet issues since the East German party congress was no less abusive than its propaganda before Khrushchev's call for a cessation of polemics.

Peiping is anxious, however, not to alienate potential supporters, many of whom felt that Khrushchev's appeal made sense. The North Vietnamese, for example, who have attempted to maintain a balanced position between the two antagonists, hailed "the proposal by Comrade Khrushchev...that polemics be stopped."

With this in mind, Peiping is discrediting the truce proposal as merely a hypocritical grandstand play accompanied by action designed to aggravate rather than terminate the controversy. A long People's Daily editorial on 27 January charged Khrushchev and his supporters with paying only lip service to bloc unity while planning the chorus of boos and catcalls directed at the head of the Chinese Communist delegation to the East German congress. This charge of a deliberately staged demonstration probably is a valid one and will carry weight with many of Peiping's supporters who witnessed the event from close range.

The editorial goes beyond a disparagement of Khrushchev's sincerity to insist on impossible conditions for a truce. As Peiping presents the case, the attitude toward Yugoslavia is central to the issue, and the Chinese will refuse to join in the "sham unity" that implies any toleration of bloc amity with Belgrade. The "real unity" demanded by Peiping would thus permit it to continue implicit attacks on Soviet policies by means of explicit attacks on "Yugoslav revisionism."

To keep their position on record, the Chinese are giving wide circulation to the 27 January editorial. It has been reprinted as a pamphlet, and it is being rebroadcast

to domestic and foreign audiences. There were 80 such broadcasts--13 in Russian--on 27 January alone.

In addition, Peiping is continuing to circulate other recent polemical editorials from People's Daily and Red Flag, which have been gathered into a pamphlet in Chinese and other languages. The Chinese domestic audience has also been informed by extracts in People's Daily of speeches at the East German party congress that were explicitly critical of Peiping. The effect has been to impress on the Chinese people the fact of their comparative isolation in the bloc. By noting in the 27 January editorial that Sino-Soviet relations have reached "the brink of the precipice," the Chinese leaders have alerted their followers to the possibility of new dramatic developments.

The next move is in the hands of the Soviet leaders. They may feel that their best strategy is to continue to maintain the high and principled stand Khrushchev adopted at the East German congress and to stress the necessity for a pause in the polemics. In this way, they could take credit for trying to maintain "unity" in the face of Chinese intransigence without impairing their freedom to institute policy moves--like the reported delivery of MIGs to India--directly contrary to Chinese interests.

On the other hand, the insults to Khrushchev in the 27 January editorial may goad the Soviets into taking the line that Peiping's display of dogmatism in the face of their generous offer left them no choice but to point out the dangers the Chinese pose for the whole international Communist movement. In either event, the net result of the latest round in the contest between the two nations set in motion by the East German congress has been a further demonstration of the lack of common ground upon which they can stand. (CONFIDENTIAL)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****THE SINO-INDIAN BORDER DISPUTE**

The interpretations of the loosely worded Colombo Conference proposals made public in the past week by Peiping and New Delhi are largely incompatible and provide little common ground for productive discussions.

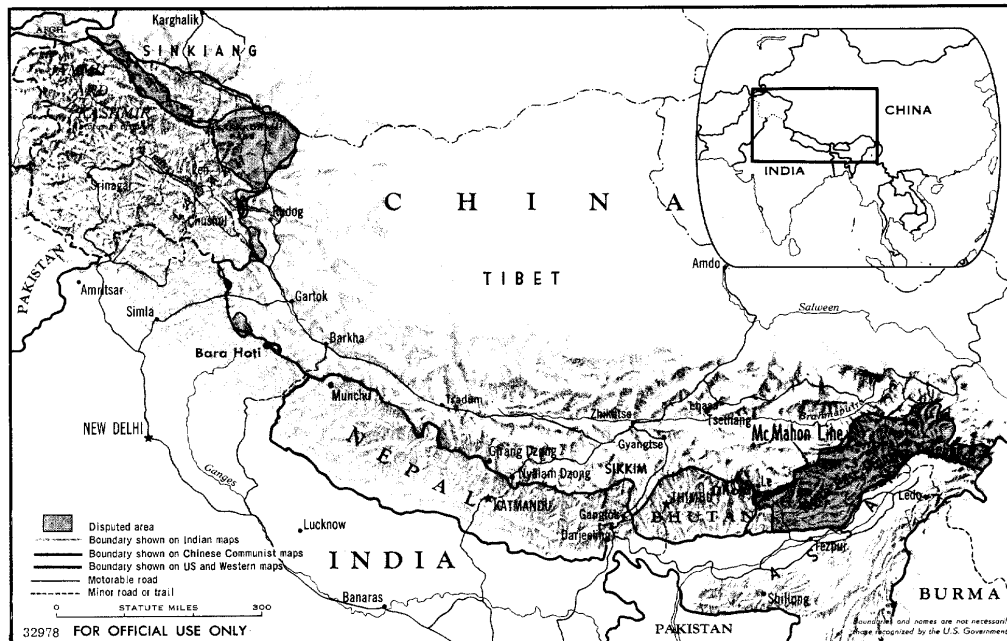
Although the Chinese accept these proposals "in principle," they make it clear that they will insist on two major modifications to which the Indian Government cannot agree.

Chou En-lai's formal reply to Prime Minister Bandaranaike and Peiping's follow-up editorial on 28 January preclude the return of Indian forces to large areas in the North East Frontier Agency (NEFA) vacated by the Chinese. The Colombo proposals, as "clarified" during the Bandaranaike mission to New Delhi and discussed in

the Indian Parliament, would permit the return of Indian military forces to the McMahon line everywhere except in the Dhola and Longju areas.

The second of Peiping's modifications excludes Indian civil administration from the proposed demilitarized zone in Ladakh and from Bara Hoti, Longju, and the Dhola area. The Colombo proposals called for a one-sided Chinese pull-back in Ladakh and would have permitted a return of Indian civil administration to many positions from which the Chinese had driven New Delhi's forces last fall.

As a compensating gesture, Peiping has offered to take "another step forward on the road of reconciliation" by waiving the right to set up civil administration in certain disputed border areas. Peiping

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also announced on 28 January that its troop pullbacks would "soon be completed along the entire border," at which time Chinese forces would be "far behind" the line of 8 September 1962--which New Delhi has declared is one essential condition for negotiations.

The Indians, aware of Peiping's terms earlier this month through diplomatic channels, had flatly called them unacceptable. Both Peiping and New Delhi probably look forward to a protracted deadlock on the border issue and a long period of diplomatic jockeying and propaganda exchanges. The Afro-Asian nations will probably continue their efforts at mediation, although new initiatives will probably be individual rather than collective. Indonesian Foreign Minister Subandrio has just visited New Delhi, and Cambodia's Sihanouk is visiting India prior to a trip to Peiping.

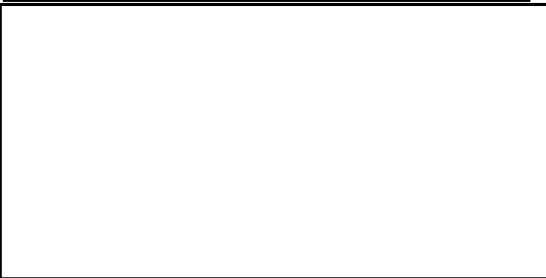
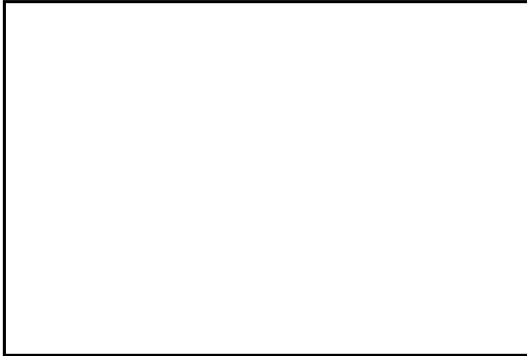
On a related aspect of the Sino-Indian border dispute, New Delhi is giving increasing play

to the warmth and closeness of its relations with Moscow. R.K. Nehru, secretary general of India's External Affairs Ministry, returned from the USSR on 26 January after a week of wide-ranging talks with Soviet officials. Included in the topics discussed, according to the Indians, were prospects for increased trade, Soviet aid for India's Third (1961-66) and Fourth (1966-71) Five-Year Plans, details concerning the establishment of the "MIG factory" in India, and possible Soviet help for other Indian defense industries. Nehru also invited Deputy Foreign Minister Firyubin and Defense Minister Malinovsky to visit India.

In playing up these developments, the Indian Government has omitted--at Moscow's request--any publicity concerning the arrival of four crated MIG-21 fighters in Bombay this week, although the Indians can be expected to make the most out of the news once it becomes known. (SECRET NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****THE CUBAN SITUATION**Military Developments

the crates arrived by sea during the period immediately prior to 11 January or if they had been in storage in Cuba for some time.



ports that on 14 January Cuban army and militia members visited farm owners in a wide area just southeast of the city of Havana. The owners were told that the government needed their land and they would have to evacuate

Soviet Economic Support

The Cuban trade delegation which had been in Moscow since mid-December negotiating details on Cuban-Soviet trade for the coming year now has left for its next stop in Communist China. There has been no indication of what has been agreed upon.

Moscow announced on 26 January that, at Havana's request, it is sending some 400 specialists to Cuba during the first three months of the year. The specialists are to include agronomists, zootechnicians, agricultural machinery operators, agricultural economists, and veterinarians, and are to spend a year in Cuba helping to improve crop production, animal husbandry, and farm mechanization.

Internal Developments

Cuban press and radio reports indicate a resurgence of small-scale insurgent activity. The Castro regime, however, is in no immediate danger from the activities of the active opposition. While most Cubans are probably dissatisfied with the regime, only a small minority actively resist it. Various forms of passive resistance, such as work slowdowns, however, are probably more widespread.

Cuban leaders continue to show concern over worker apathy and the threat that labor productivity will not reach planned levels. At a 27 January ceremony honoring "outstanding" workers, Che Guevara publicly referred to the "symptomatic and alarming" fact that many Cubans "do not work hard enough." He said that many of the same young Cubans who have shown themselves ready to fight courageously on the battlefield in defense of the fatherland do not show the same spirit when it "becomes

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necessary to perform obscure and boring daily tasks" on the production front. Guevara declared that the working class must learn that the two kinds of sacrifice are equally important in the "building of socialism."

In this speech Guevara also stated--with his characteristic frankness--that there are no more spare parts for the factories in Cuba which came from the United States, and that Cuba has reached "a more or less critical point" in this respect.

Subversion in Latin America

Indications continue to multiply that the Castro regime has embarked on a more aggressive program of subversion in Latin America since last fall's missile crisis.

Blas Roca, Cuba's senior veteran Communist leader, delivered a public address on 23 January in which he praised the Venezuelan "people" for their present struggle against the "tyranny" of President Betancourt. He expressed Cuban appreciation for the acts of sabotage committed in the Venezuelan oil fields during the crisis last fall. He used this as an example of "proletarian internationalism" and stated flatly, "We shall continue to give our support, each day in greater proportions, to the Venezuelan people."

In his references to Venezuela, Roca was even more specific than Fidel Castro had been in two recent speeches singling out the "people's struggle" in Venezuela for special mention. Roca concluded his speech by declaring that when the Venezuelan revolution takes place,

then "all Latin America will be ablaze." He declared that the "victory of Venezuela will give Cuba a tremendous boost...we will have a nation on the continent to back us." 25X1

[redacted] other representatives from Central America had discussions with Che Guevara during their stay in Cuba. Guevara told them that they must prepare for united and simultaneous revolutions in all of Central America. Any idea that they can gain power by other means is a myth, Guevara said, and no Communist Party has ever come to power through elections. Guevara described the tactics being used in Venezuela as an example for the Central Americans. 25X1

Cuban officials appear to be gathering detailed information from Latin Americans undergoing guerrilla training in Cuba to aid Cuban planning and support of guerrilla campaigns in the other countries. [redacted] recently returned from guerrilla training in Cuba reports that he and some 150 of his countrymen training in Cuba were asked to answer a 58-point questionnaire. 25X1

Questions covered a wide range and included military, political, and geographic subjects, as well as means for legal and illegal entry into the country and methods by which foreigners can buy property and establish commercial firms in the country. Questions on the feasibility of guerrilla warfare covered drop zones suitable for air supply of guerrilla bands. (SECRET NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SOVIET ECONOMY IN 1962**

Soviet heavy industrial development continued in 1962 to receive clear priority over consumer goods production and agriculture. In general, trends of the preceding year were maintained. There are signs of continuing difficulties, particularly in investment in certain key industries, in the selected data released by the Soviet Government on 26 January.

Industry

Industrial output is claimed to have increased by 9.5 percent, very slightly above the 1961 rate. As usual, the greatest increase was in group "A," Soviet jargon for the bulk of heavy industrial output. The seven percent increase claimed for the group "B" industries, mainly consumer goods, is a shade higher than the 1961 rate, but there are many signs in the report and elsewhere that 1962 was a poor year for the Soviet consumer.

Soviet gross industrial production indexes, moreover, give an inflated picture of actual performance--they contain certain technical biases and reflect considerable double-counting of goods produced. For this reason, it is believed the increase in 1961 was only 7.6 percent, rather than the 9.2 percent claimed by the USSR. The 1962 claim was probably similarly inflated.

Rates for most basic industries were virtually unchanged from 1961. Chemical output advanced by a percentage point above the preceding year's increase, while ferrous and nonferrous metallurgy and the machine-building production rates dropped very slightly. Output plans for gas, oil, and electric power were overfulfilled. Pig iron and steel goals were slightly underfulfilled. This pattern probably reflects implementation of the policy first discussed by Khrushchev nearly two years ago, laying more stress on

SOVIET PRODUCTION STATISTICS

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(Figures on the USSR's performance based on Soviet announcements)

	1960	1961	1962		
GROSS INDUSTRIAL PRODUCTION	9.6	9.2	9.5	PERCENT INCREASE	
LABOR PRODUCTIVITY (INDUSTRY)	5.3	4 ⁺	6		
	1960	1961	1962	1963 (Plan)	U.S. 1962 (Preliminary)
STEEL (MILLION METRIC TONS)	65.3	70.8	76.3	80	89
OIL (M. M. T.)	147.9	166.1	186	205	360
GAS (BILLION CUBIC METERS)	47.2	60.9	75.2	88	385
ELECTRIC POWER (BILLION KILOWATT HRS.)	292.3	327.6	369	407.9	1004
MINERAL FERTILIZER (M. M. T.)	13.9	15.3	17.2	20	33.1 (1960)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****INCREASES IN SOVIET INVESTMENTS**

(in % over preceding year)

	1959	1960	1961	1962
TOTAL (STATE CENTRALIZED)*	10.7	13.2	10.1	9
CHEMICAL INDUSTRY	N.A.	33	13	8
METALLURGICAL INDUSTRY	22	12	8	2
OIL AND GAS INDUSTRY	14	10	8	5
MACHINE BUILDING AND METALWORKING	39	23	14	8
ELECTRIC POWER STATIONS	4	4	7	7

* ABOUT THREE-QUARTERS OF ENTIRE INVESTMENT OUTLAYS. EXCLUDES PRIVATELY FINANCED HOUSING, COLLECTIVE-FARM INVESTMENT, AND SMALL-SCALE CAPITAL IMPROVEMENTS ACCOMPLISHED WITH LOCAL FUNDS. IN 1962 TOTAL INVESTMENT HAS PROBABLY INCREASED AT A LOWER RATE THAN INDICATED FOR STATE-CENTRALIZED, AS IT DID IN 1961.

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synthetic materials and less on the output of the ferrous metallurgical industry.

Moscow's economic report gives some hints of the difficulties which have inspired two major reorganizations in less than a year. These difficulties--in the areas of planning, supply, and investment--stem from the mounting competition for resources for the military programs, for industrial development, and for maintenance of an acceptable level of consumption. There is little in the report to suggest that these problems abated in 1962. A higher rate of introduction of new fixed capital suggests that the policy undertaken late in 1961 to concentrate investment resources on those projects nearing completion has had some success. However, investment data, although sketchy and ambiguous, show some priority sections--

chemicals, oil, metallurgy, and machine building--doing poorly. Light industrial investment increased only eight percent compared with a planned 33.5 percent. As usual, no information was released on military programs.

Industrial labor productivity increased by six percent after having slackened during the implementation of a shorter working week in 1960 and 1961. Productivity in construction was also greater than in the two previous years, but was still below plan.

Agriculture

Despite considerable lip service from Moscow to the needs of agriculture, nothing in the report suggests that its priority was raised substantially in 1962. The output of mineral fertilizer was slightly above the annual target but too low to meet Seven-Year-Plan goals or the actual requirements of Soviet farming. The production of farm machinery continued to increase fairly rapidly, although tractor production increased at a lower rate than in 1961. State investment in agriculture increased 22 percent, but at least a part of the increase resulted from the transfer of collective farms to state-farm status and adds nothing to total agricultural investment.

Production results in agriculture were mediocre in 1962, despite a fairly large increase in acreage at the expense of fallow land and land in grass-rotation. The report claimed a record grain harvest of nine billion poods (147 million metric tons), but Western experts after an extensive study of acreage, crop, and weather

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information--estimate it at about 115 million tons--well below the record 1958 crop. There apparently was a fair increase in meat production, encouraged by the higher prices for meat introduced in mid-1962 and by the prospect of feed shortages this winter. The potato crop was the worst one in over a decade.

Consumer Goods and Housing

Other features of the 1962 economic performance may also dishearten Soviet consumers. The output of light industry increased only four percent compared with five percent the preceding year. Production of cotton fabrics did not increase at all. Production of all kinds of textiles rose two percent. Retail trade turnover, although somewhat improved over 1961, was below plan.

The urban housing program, for the third year in a row, was substantially underfulfilled. Taking into account the 1963 plan, it now appears that the urban housing construction will fall about ten percent short of the Seven-Year-Plan goal. Likewise, rural housing is badly behind schedule.

Foreign Trade

Soviet foreign trade turnover amounted to \$13.1 billion in 1962, an increase of approximately \$1.3 billion or 11.5 percent over the 1961 level. This was the largest increase in several years and resulted largely from a 17-percent increase in trade with CEMA countries and a 30-percent increase in trade with nonbloc underdeveloped countries. Moscow gave no data on trade with China, but apparently there was some decline in 1962.

Competition With the US

One of the main propaganda features of Moscow's report is the self-styled "competition" with the United States, which, as in the past, is presented in terms highly favorable to the Soviets. For example, the claim that Soviet industrial production has reached 63 percent of the US level is based on statistical methods which give a strong upward bias to Soviet efforts. No comparisons between two countries with dissimilar economies can be entirely fair or unbiased, but Soviet industrial production is in fact believed to be less than half that of the US. (CONFIDENTIAL)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SINO-MONGOLIAN RELATIONS**

Since the Cuban crisis last fall, Mongolia's advocacy of Khrushchev's views has brought it to the point of open criticism of the Chinese. Always a dependable supporter of Soviet foreign policy, Mongolian party chief Tsedenbal has emerged more and more in recent months as Khrushchev's Asian spokesman.

Tsedenbal has given all appearances of accepting this role with enthusiasm. At a recent party ideological conference in Ulan Bator, he reiterated Moscow's explanation of its Cuban policy, in effect defending it against Chinese charges of appeasement. Disparaging those "who cling to obsolete formulas" and do not display flexibility in face of changed world conditions, the Mongolian leader labeled as "irresponsible and conceited" Peiping's "groundless criticism" of the USSR's policy. He pointedly charged the Chinese with "incorrect and extremely harmful actions" in egging on the Albanians.

State relations with Peiping, however, remain outwardly correct, although Mongolian officials admit privately there has been some cooling. The most conspicuous form of Chinese assistance, the use of Chinese workers for big construction projects around Ulan Bator, apparently continues. Labor-short Mongolia has employed as many as 10,000 of these workers at one time. Mongolian officials have told recent foreign visitors that workers from China who completed their tours of duty in the past year have all been replaced by the Chinese.

These correct state relations were exemplified by the signing of a border treaty in late December. It probably mattered little to the Mongolians that the Chinese motive in arranging the treaty at that time was to place India in a bad light. For their part, the Chinese were probably under no illusions that their accommodation on the border, along which the number of incidents has been increasing, would budge Ulan Bator from its pro-Soviet orientation.

Tsedenbal, who went to Peiping to sign the treaty, gave the Chinese no reason to entertain any such hope. In return for the fanfare with which he was greeted, Tsedenbal discomfited his hosts at a public rally in Peiping by hailing Moscow's "sensible compromises" on Cuba. His remarks reportedly caused the audience of 150,000 to "buzz with surprise" and were greeted by Chinese leaders on the rostrum with impassive silence.

The Mongolians describe their position, wedged in between the USSR and Communist China, as "overpowering," and take advantage of every opportunity to cultivate foreign diplomats and plump for recognition. Their record--recognition by 14 non-Communist countries--is far better than that of the other Asian satellites. Recognition last week by the United Kingdom--the first from a West European country will no doubt be exploited as an example to be followed by other states. (CONFIDENTIAL)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****DEVELOPMENTS IN THE CONGO**

Joseph Ileo, the Congolese Government's recently appointed minister-resident in Katanga, has begun what may prove to be a long and difficult period of reintegrating the province. He has privately described his mission as one of an executor of integration. While he has begun talks with Tshombé, Ileo has made it clear that he does not intend to get bogged down in involved negotiations with the Katangan leader. He said soon after his arrival he would not tolerate Katangan obstructionist tactics, and on 28 January he ordered the arrest of directors of the former Katangan National Bank who had been instructed not to divulge information on the bank's operations.

Ileo does not intend to adhere to the letter of U Thant's reintegration plan, according to several sources. He is said to feel it has been "overtaken by events."

Leopoldville appears at least temporarily to have dropped the idea of convening a special session of the combined North-South Katanga Assembly as a means of ousting Tshombé, or reshuffling his government. Ileo has said that such a move would be illegal, since North Katanga has been established by the Congolese Parliament as a separate province and this situation could be changed only by new parliamentary action. Adoula may be waiting to establish a

firmer grip on the province before moving against Tshombé.

Anti-Tshombé Baluba tribal pressures for a combined session remain strong, however. Bertin Mwamba, president of the Congolese Chamber of Deputies, maintains that North Katanga is too poor to get along on its own. He apparently is willing to let Tshombé remain, but wants to oust some of his ministers. On the other hand Isaac Kalonji, president of the Congolese Senate, opposes reunification of Katanga, even though he wants to oust Tshombé.

The behavior of central government officials in Elisabethville has alarmed both UN and Belgian officials. UN officials are trying to rein in Leopoldville's politicians and to limit the number of the carpetbagger horde until the detailed work of reintegration is completed. Foreign Minister Spaak says he fears that replacing Tshombé would provoke tribal outbreaks and violence, although he says Brussels is not seeking to retain Tshombé "in perpetuity."

Leopoldville is continuing to press for the introduction of more Congo National Army (ANC) troops into South Katanga. Ileo and General Mobutu have succeeded in persuading UN officials to permit ANC soldiers to patrol with UN troops in Elisabethville, and they now are pressing for the extension of mixed

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

patrols to the key mining town of Jadotville, Kolwezi, and Kipushi. Mobutu wants to send another ANC battalion to Elisabethville, and one each to Jadotville and Kolwezi. UN officials, although fearful of the European reaction, have apparently agreed to the gradual introduction of three or four more ANC battalions.

Tshombé has moved quickly to reassume his mantle of Katanga's provincial president. He has held a series of cabinet meetings, has toured the African communes of Elisabethville announcing that he is the sole authority in Katanga, and

called in selected members of the Katanga Assembly to remind them he is the legally elected president and to warn them to remain loyal. In a letter to Adoula on 27 January he asked what the exact functions of Ilele were. Tshombé said that neither he nor his government

wanted any "conflicts of competence" to arise.

The central thread running through Tshombé's actions since his return is strict application of the U Thant plan. He has now offered to send his officers to Leopoldville to take an oath of allegiance as provided in the plan. He protested to the US consul on 26 January that the takeover of the Katangan banks was not consonant with the UN plan, and several times repeated that either the plan should be applied as written or Leopoldville should declare it null and void.

The Katangan leader now is seeking to involve the UN in resolving his differences with Leopoldville. On 24 January he asked Thant to appoint a special UN representative to settle "certain problems" which had arisen "in application of your plan." (CONFIDENTIAL NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****INSTABILITY CONTINUES IN TOGO**

The political situation in Togo remains basically unstable following the assassination of President Olympio in mid-January. Behind Provisional President Grunitsky's weak leadership the diverse factions represented in the cabinet and the military elements who staged the coup are involved in a power struggle. Grunitsky's authority has been further undercut by the reluctance of most countries, especially those in the moderate African group, to extend diplomatic recognition.

Grunitsky is seriously handicapped by his lack of a real political base and the fact that he is widely regarded by Africans as a French stooge. He is further inhibited by fear of the military junta, which is drifting into a more assertive role, sometimes even acting independently of the provisional government. Grunitsky reportedly indicated recently that his relations with the military leaders, who themselves are confused and frightened by the hostile reaction to the coup, were becoming increasingly difficult.

Among the contending domestic political groups, Finance Minister Meatchi's northern-based Democratic Togolese Peoples' Union (UDPT) appears to be in the ascendancy within the provisional regime. Meatchi, who is believed to be receiving support from Ghana, has been formally designated to take over in the event of Grunitsky's absence or inability to act.

Elements of Olympio's Togolese Unity Party (UT), in which southern Ewe and Mina tribesmen predominate, are also attempting to reassert themselves. As the sole legal party for a year prior to the coup, the UT has the only effective national organization. However, it is questionable whether this party, which is represented in the present coalition

regime by Labor Minister Kutuklui, can long survive Olympio's death. Kutuklui, a spokesman for impatient younger elements in the party, reportedly is attempting to take control from the more conservative older leaders, many of whom now are in exile.

Grunitsky has reiterated his government's pledge to hold free elections, but so far no date has been set. The American Embassy in Lomé believes they are not likely to materialize soon unless the UT drops its opposition to Grunitsky's plan for prior agreement by all parties on a single list of candidates. This device is clearly aimed at preventing the UT from profiting from its present electoral strength in the country. For the present, all political meetings have been banned.

Only Ghana--which many African governments suspect was behind the coup--and Senegal have announced unqualified recognition of Grunitsky's regime. Dahomey has accorded de facto recognition. It now seems likely that other African states will continue to defer any formal action pending a report by the five-country mission of inquiry which the moderate Monrovia powers decided to send to Togo at their 24-26 January conference at Lagos.

Grunitsky has said he is prepared to receive the mission, but opposes as unrealistic the conferees' call for the prompt release of the imprisoned ministers of Olympio's government and for punishment of the assassins. Prior to the Lagos meeting, Grunitsky indicated to the French ambassador that if general recognition were delayed much longer he would assume other states lacked confidence in him and would simply "take off" for his former refuge in Dahomey. (SECRET NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****REFERENDUM IN IRAN**

The overwhelming approval of Iran's reform program in the referendum on 26 January will encourage the Shah to accelerate the program and possibly to advance the date of national elections now planned for June or July. The regime now believes it can override any attempts in a new parliament to obstruct reforms. The Shah has been ruling without Parliament since May 1961.

The referendum sought approval of six proposals: redistribution of large landholdings to peasants, a requirement that 20 percent of industry's profits be shared by the workers, nationalization of forests, broadening of the franchise, distribution of shares in government-owned industry to reimburse dispossessed landlords, and use of military draftees to teach reading and writing in backward areas.

The regime mustered a 99.9-percent affirmative vote, partly by intimidating the opposition. Some opponents of reform were jailed before the voting began. The use of blue ballots to signify a negative vote prevented secrecy, and busloads of pro-reform demonstrators cruised through Tehran. Intensive security measures and displays of military force imposed calm during the balloting.

The spectacle of women voting for the first time failed to provoke the expected religious protest. The women's vote was not included in the final tally, however.

The standing of Minister of Agriculture Hasan Arsanjani

appears to have been enhanced. Already popular for his key role in pushing land reform, he was responsible for organizing sizable peasant demonstrations which upset the plans and strategy of those opposing the Shah's reforms.

The opposition forces--the mullahs, the landlords and the National Front--appear to be demoralized temporarily and probably have lost many supporters. The protest demonstrations they sparked were overwhelmed by those the government staged. However, they can be expected to claim that the referendum was invalid because of rigging. The National Front, which favors reform but not under the Shah's auspices, now intends to concentrate its attack on the Shah personally. According to its moderate leader, Allahyar Saleh, it will charge that the Shah has profited from land sold to the peasants and will demand that such profits be distributed to them.

The National Front may begin to compete with the regime in offering workers and peasants more than the Shah can deliver. The reforms and promises of further reforms have raised high hopes which would turn to disillusionment in a few months as the government encounters complex administrative and financial problems in carrying out its program.

When elections are held, the regime's opponents may again seek to provoke disorders in view of the futility of competing at the well-scrutinized ballot boxes. (SECRET NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****INDONESIAN INTENTIONS TOWARD MALAYSIA**

Indonesia's policy, announced on 20 January, of "confrontation" with Malaya over the inclusion of the British Borneo territories in the proposed Malaysia Federation has sharpened British and Malayan concern over Indonesian intentions in the northern Borneo territories. In declaring the policy, Indonesia's Foreign Minister Subandrio denounced Malaya as an accomplice of "neo-colonialists" and "neo-imperialists" and for pursuing a hostile policy toward Indonesia.

Steps to carry out Indonesia's new policy will probably include anti-Malayan propaganda activity in Indonesia, accusations that Malaya encourages illegal economic and political activity directed against Indonesia, harassment of Malayan shipping by Indonesia's anti-smuggling patrol craft in the Straits of Malacca, and harassment of Malayan diplomatic and consular personnel in Indonesia. Presumably the objects of such a policy are to draw international attention to the area, to goad Malaya into action against which Indonesia might retaliate, and to encourage anti-Malaysia elements in Malaya, Singapore, and the Borneo terri-

tories. "Confrontation" does not appear to imply a direct use of force.

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Malaya's Prime Minister Rahman nevertheless claims to have information that Indonesia is preparing to infiltrate guerrillas into Brunei in the very near future in order to rekindle the abortive revolt staged there in December. Rahman warns that only a strong show of force in the area by the British will deter Indonesia.

Since the December revolt in Brunei was crushed, Indonesian army outposts in Borneo reportedly have been ordered to assist those rebels who have made their way to the border and to regroup them inside Indonesian territory. A communications post is to be established in East Borneo to maintain contact with rebel leaders on the other side of the border.

Guerrilla training areas for both Indonesians and rebel elements are reported operating in Indonesia near the North Borneo and Sarawak borders. A monthly training capacity of five or six hundred may have been reached. In mid-January, both Subandrio and National Security Minister Nasution told American officials that if "independence seekers" in the North Borneo territories request military training, Indonesia will comply. (SECRET NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SOUTH KOREAN POLITICAL STRUGGLE**

Kim Chong-pil, controversial second man in the South Korean regime, has emerged from a fight for control of the government-sponsored Democratic-Republican Party with his power position intact, if not stronger than ever. His official position in the party is still undecided, and he may exercise control from behind the scenes.

The junta intends to use the party--which Kim organized --to control the new "civilian" government scheduled to come into being after elections this spring. Senior officers in the junta feared that if Kim consolidated his control of the party they would be frozen out of any share in political power. On 21 January a retired marine lieutenant general, Kim Tong-ha, led a move to remove Kim Chong-pil from the party.

The political crisis that ensued demonstrated once again the close ties between junta leader Pak Chong-hui and Kim. Pak's decision to allow the party sponsoring committee to resolve the issue of party leadership signaled the defeat of Kim's opponents. Kim had placed on this committee civilians responsive to his control and former members of the South Korean Central Intelligence Agency, which he had headed.

Assurance that the army leadership would support the move was a key influence in Pak's decision favoring Kim. Subsequently, Pak confirmed the government party as the new locus of political power by warning the junta council to stop meddling in politics. He stated he would no longer tolerate discussion of party affairs in the council, even if he had to disband it.

The support of the civilian members of the party committee is enabling Kim to pose as the champion of civilian supremacy in politics. He also appears to have isolated his enemies in the army for the time being. His success, however, could make him a possible target for assassination--a device not unusual in Korean politics. Pak may be exposed to the same danger.

The military forces are likely to remain the key factor in the political situation for some time to come, and power seekers will have to obtain backing among the armed forces. For the time being some of Kim's opponents probably will go along with his leadership of the party, awaiting a time when factional shifts in the military will give them another chance to challenge his position. Others may align themselves with civilian politicians opposed to the regime and use their inside knowledge of government scandals, including Kim's financial deals, to attack the party during the election campaign.

In any event, the open strife surrounding the struggle for control of the party will make it increasingly difficult for the junta to maintain the facade of free elections and return to representative government. The regime's narrow base of public support makes it sensitive to criticism. An indication of declining support could cause the Pak-Kim forces to impose repressive measures that might provoke violence by students or other disaffected elements. (SECRET NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****THE POLITICAL SITUATION IN ITALY**

The parliamentary debate in Italy occasioned by the Communists' recent no-confidence motion served to launch the campaign for national elections to be called sometime this spring. Special attention focused on the new defense position announced by Premier Fanfani following his Washington talks.

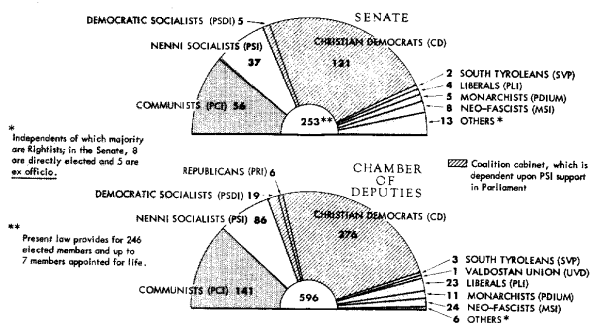
The Communist motion was defeated 292 to 173 in a show-down vote between government and opposition parties, with the Nenni Socialists abstaining as usual. Indicating their probable electoral line, the Communists emphasized the government's failure to carry out its promises to take action against private monopolies and to set up regional administrations. Communist chief Togliatti also charged Fanfani with embarking on a dangerous defense policy involving extension of Italy's participation in the use of nuclear arms. Nenni, for his part, deplored the Christian Democrats' failure to meet all program commitments but reiterated support for the present government and declared that his party expected a revival of the center-left experiment after the elections.

As announced by Fanfani, the government's defense position

is that "nuclear proliferation" is to be reduced by removal of the 30 obsolescent Jupiter missiles from Italian soil and by Italian participation, instead, in a Mediterranean but non-Italian-based NATO nuclear force. In this connection the US Embassy in Rome considers it significant that Nenni, on whose parliamentary following the government depends for a viable majority, took note--without expressing opposition--of Fanfani's statement approving such a force, whereas a year ago the Socialists were publicly opposing a NATO nuclear arm. Nenni, despite the effect his statements might have on his electoral supporters, even praised the results of Fanfani's Washington visit.

There were numerous statements by party leaders deploring De Gaulle's EFC policy, with Social Democratic leader Saragat declaring that "De Gaulle will pass and Europe remain." Premier Fanfani called the Paris-Bonn treaty a particularism harmful to Europe and NATO. Further such sentiments are likely to be voiced during Prime Minister Macmillan's long-scheduled visit to Italy from 1 to 3 February.

The government, seeking to avoid further no-confidence motions, will probably try for early adjournment of parliament after passage of the Senate reform law--which legalizes simultaneous dissolution of both houses--together with certain patronage and other measures. Elections are being talked of for as early as April. The Socialists, however, have hinted confidentially that they may attempt to prolong this legislative session in order to present their electorate with as much completed legislation as possible. (CONFIDENTIAL NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****DENMARK'S FAEROE ISLANDS PROBLEM**

The new coalition government in Denmark's semiautonomous Faeroe Islands is expected to cause Copenhagen considerable difficulty over revision of the Home Rule Law of 1948 and the status of US and NATO defense facilities in the islands.

The islands have a large measure of internal autonomy but they remain dependent on budgetary subsidies from Copenhagen. The approximately 35,000 Faeroese are of Nordic stock and, like the neighboring Icelanders, depend on fishing for their livelihood. Since World War II, an increasingly influential vocal minority has been agitating for virtually complete independence.

One of the two principal parties in the new coalition government, which was formed in early January following elections last November, is the outspokenly separatist and anti-NATO Republican Party. The Republicans lead the more militantly nationalistic elements in the cabinet in demanding basic revisions of the Home Rule Law. Their proposals envision retaining only loose ties with Denmark, flying their own flag, issuing their own passports, and having the authority to conclude agreements with foreign countries. The new government may also demand a 12-mile fishery conservation limit to go into effect as of 1 April.

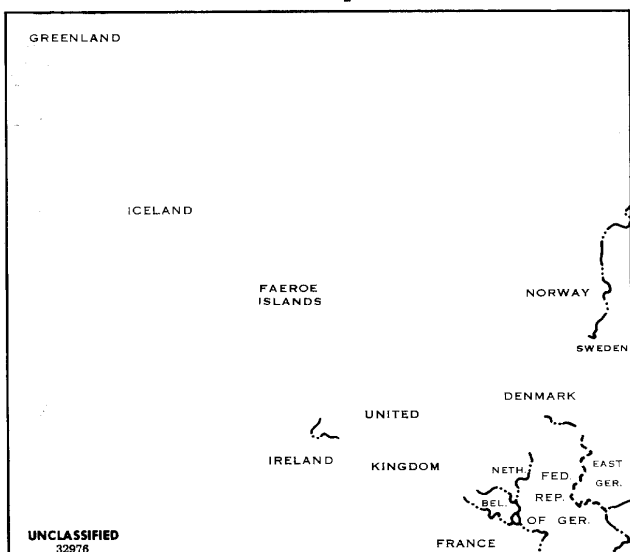
US and NATO defense facilities in the Faeroes include an early warning station and radio communications facilities. The Republicans maintain that these installations and their personnel must be withdrawn. They may insist that prior agreements concluded between Denmark and its NATO allies which in any way affect the Faeroes are no longer to be binding on the provincial government.

Authorities in Copenhagen profess to see some hope that the Faeroese Government, in order to accommodate the divergent interests it represents, may be compelled to take a more moderate stand than the Republicans demand. The governing parties, moreover, control only 15 of the 29 seats in the provincial parliament, and this may influence them to proceed more cautiously. The Danes retain considerable leverage as a result of their direct subsidies--which amount to about 35 percent of the provincial government's total budget.

The Danish Government maintains that at present it has no intention of making any changes in the Home Rule Law. If the Faeroese should formulate concrete proposals affecting future relations with Denmark, Copenhagen would not accept them until after new elections were held. The coalition's stand on this issue may become clearer when it presents its program and budget to the provincial parliament on 19 February.

Danish officials have indicated that they intend to continue the current negotiations for additional NATO facilities in the islands despite the poor prospects for their successful conclusion.

The Danes have also indicated concern that the new government may be tempted to embark on an "adventurous" policy similar to that of previous Icelandic governments, thereby attempting to use the NATO bases issue to secure economic assistance from the West. These officials do not even rule out the possibility that the Faeroese might turn to the bloc for assistance in order to bring pressure on Denmark and its allies. (CONFIDENTIAL)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****BRAZIL'S NEW CABINET**

President Joao Goulart appears to believe that he can strengthen leftist influences in Brazil without endangering the country's chances for sizable new economic aid from the United States. He received full presidential powers on 23 January following congressional action abolishing the parliamentary system instituted in September 1961. His first cabinet under the restoration displays a more pronounced leftist bias than did its predecessor.

Finance Minister San Thiago Dantas, a former foreign minister and the most influential proponent of "independence," is likely to be the dominant figure in the cabinet. Dantas, who accumulated a fortune as legal adviser to US companies in Brazil before joining Goulart's leftist Labor Party, has considerable financial acumen. There are some indications, however, that he believes that economic growth is best fostered by authoritarian government such as that of the USSR. In Congress, Dantas' closest links appear to be with the Nationalist Parliamentary Front, a group of 80-100 federal deputies who vote in accordance with Communist wishes on most critical issues. He appears to be chiefly responsible for Goulart's planned state visit to Poland in mid-1963.

The Ministry of Labor, which Goulart has used for the past ten years to build up the Labor Party, went to Almino Afonso, who has in the past shown himself to be a firm friend of the Communists and an outspoken foe of the United States. Jose Ermirio de Moraes, who helped finance the Pernambuco gubernatorial campaign of

pro-Communist Miguel Arraes, is the new minister of agriculture.

The US ambassador notes that the retention of General Albino Silva as chief of the military household and the appointment of former Attorney General Evandro Lins as head of the civil household ensure the continuance among the President's closest advisers and confidants of men apparently firmly committed to the leftward swing of Brazil away from US influence. Far-left circles in Brazil reportedly hope that the leftist bias of the cabinet may be increased several months hence by dropping Minister of War Amaury Kruel, Goulart's only prominent supporter who is markedly anti-Communist.

Finance Minister Dantas plans to begin discussion of Brazil's financial problems with US officials in early February and hopes to come to Washington about the 20th. He has already sought to convey the impression that he will help US investors in meat, drugs, petro-chemicals, and mining, who have been threatened with adverse governmental action.

With almost no gold or foreign exchange reserves, Brazil's commercial payments arrears increased to \$122 million in early January. It is estimated that the foreign exchange deficit for the first half of 1963 will be \$150 million at a minimum. Brazil may face default on its international obligations in March in the absence of new foreign aid.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****ARGENTINA'S FINANCIAL CRISIS**

Present financial resources of the Argentine Government are inadequate to meet either foreign or domestic obligations. It has given priority to meeting its foreign obligations at the expense of domestic debts in order to encourage foreign lenders to come to Argentina's aid in the present crisis.

For more than a year the government has been behind in paying salaries to its employees and bills owed to domestic suppliers. This has contributed to the severe business recession, growing unemployment, and a drop in federal revenues and the gross national product.

Concomitantly, the government has limited expansion in the money supply, despite strong pressure from businesses which lack credit for normal operations. Business firms have also delayed salary payments as well as cut their labor force. Labor has been remarkably quiescent despite growing economic hardship--including a 31-percent rise in living costs last year--but this could change rapidly.

Available foreign exchange reserves approximate only one month's imports, or about \$100 million. At the same time, Argentina faces foreign debt payments due in 1963 totaling more than one-half billion dollars. Through 1969 these public and private obligations owed abroad are estimated to total \$3 billion.

The American Embassy in Buenos Aires believes that Ar-

gentina will face a severe payments problem for the next several years, even assuming it could attain a modest trade surplus this year and succeed in completing negotiations for postponement of some payments owed abroad.

US Chargeé Hoyt is increasingly concerned over the probable political consequences of a failure by Argentina and the IMF to reach a new agreement promptly. He believes that if the government is unable to pay salaries by the middle of February, or does not receive support from the US and Europe, confidence in the Guido government will drop so low that the "almost natural result" will be the ascendancy of the advocates of recourse to the printing presses and strong military government. Hoyt states that, while cries of "this is the last chance" have been heard many times, he is convinced that from the political standpoint this now is true.

The financial crisis is jeopardizing preparations for the general elections scheduled for 23 June. The political situation may become more confused by the recent call by seven political parties for amendment of the carefully negotiated electoral statute to permit openly pro-Peron political activity by the various Peronist political groupings. Such a move would tend to sharpen the opposition to the election schedule of those military elements who agreed to Peronist electoral participation only if they desisted from avowing Peron's leadership. (SECRET NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****SPECIAL ARTICLES****THE CHINESE COMMUNIST NAVY**

The Chinese Communist Navy, although it is numerically stronger than that of any other Asian country, is primarily a defensive force. Its largest vessels are four obsolescent Gordy-class destroyers acquired from the USSR before 1955, and no new construction of major vessels is likely in China unless Soviet assistance is resumed. The effectiveness of the submarine fleet, the fourth largest of the world, is limited by its apparent inability to engage in operations far from its bases.

Beginnings

Peiping acquired its first naval vessels in 1949 when the Chinese Nationalists retreated from the mainland. Lacking qualified naval personnel, the Communist regime staffed these vessels initially with ground force officers transferred to naval duties and with seamen recruited from among fishermen and coastal inhabitants who had some seafaring experience.

By 1954, base facilities had been established, and a navy had been organized with the assistance of a Soviet Naval Advisory Mission. This mission

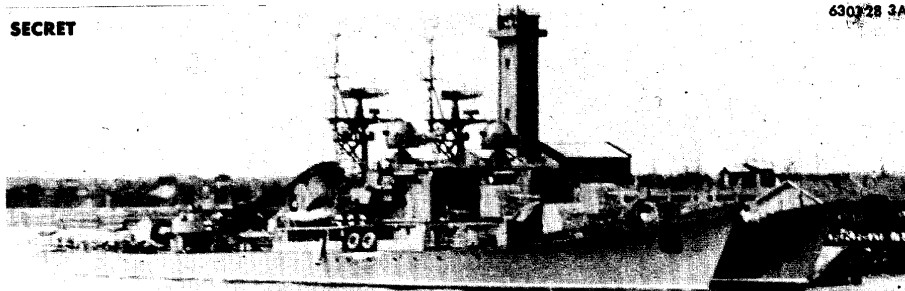
operated within the Naval Headquarters at Peiping, with representatives attached to every major command or installation. Originally the mission probably had about 500 members, but it dwindled to about 150 by mid-1960, when Soviet technical aid was withdrawn.

Apart from the advisory mission, the USSR provided training in its own installations for large numbers of Chinese personnel. A few senior officers attended the Soviet Naval Academy at Leningrad for command and staff training.

Beginning in 1953 and continuing through at least 1955, the Chinese received a number of warships from the USSR. The first Soviet M-II class short-range submarine arrived at Tsingtao in July 1953. It was followed by four S-1, four M-V, and four SHCH units in 1955 and 1955. Four Gordy-class destroyers also arrived in 1954 and 1955. These obsolescent destroyers, with the exception of four RIGA-class destroyer-es-corts, are China's only vessels with a modern fire-control system. Other vessels provided by the USSR included six Kronshtadt-class coastal patrol vessels,

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Chinese Communist Riga-Class Units near Shanghai, 1958.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

at least two T-43 minesweepers and 50 to 80 motor-torpedo boats.

Naval Construction

Following a Soviet-assisted program for the development of Chinese Communist shipyards, a relatively large-scale program of naval ship construction began in 1955. Under the supervision of Soviet technicians, Chinese yards built five distinct classes of naval ships: W-class long-range submarines, Riga-class escorts, Kronshtadt-class large subchasers, T-43 - class minesweepers, and P-6 - class motor-torpedo boats.

The Riga and Kronshtadt programs were completed in 1957 with the construction of the last of four Rigas and eighteen Kronshtadts. Both the minesweeper and torpedo-boat programs appear to have been stopped in 1961 with twelve minesweepers and about 80 torpedo boats completed. The W-class program continued up to last year, with 21 (possibly 22) units launched and delivered to the fleet)

A construction program focused on new submarine and destroyer designs got under way in 1960 with the arrival of additional shipbuilding technicians, but before any ships were built the Soviet technicians were withdrawn. The economic crisis in China was an additional factor forcing a sharp reduction in shipbuilding activity. Recent Chinese Nationalist photographic in-

telligence of Chinese Communist shipbuilding facilities discloses that no major naval shipbuilding is in progress.

The main Chinese weakness in ship construction has been the inability to produce marine engineering components, and electronic and ordnance equipment. In 1958 the USSR probably shifted the emphasis of its assistance to providing support for the construction of facilities producing engineering components. Although considerable progress was made, China is still dependent on outside sources of supply.

The Chinese, however, have demonstrated a capability for independent design and construction of smaller naval vessels. They are credited with the design of the Shanghai-class fast patrol boat and with the modification, designated Swatow-class, of the P-6 motor-torpedo boat. Both classes were built in China.

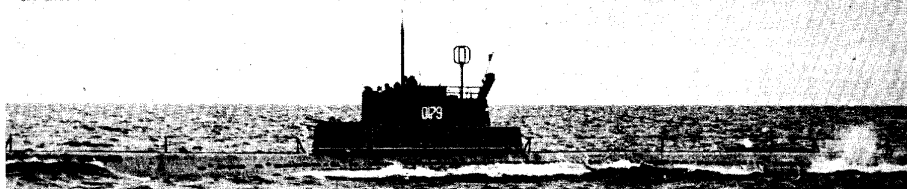
Deployment

The Chinese Communist Navy is currently divided among three major fleet areas: the North Fleet, with headquarters at Tsingtao; the East Fleet, with headquarters at Shanghai; and the South Fleet, with headquarters at Canton.

The East Fleet is numerically the largest, with all four of the Riga escort vessels, but it has only a few submarines and no destroyers. Most of the submarines operate under the North Fleet, as do all of the Gordy-

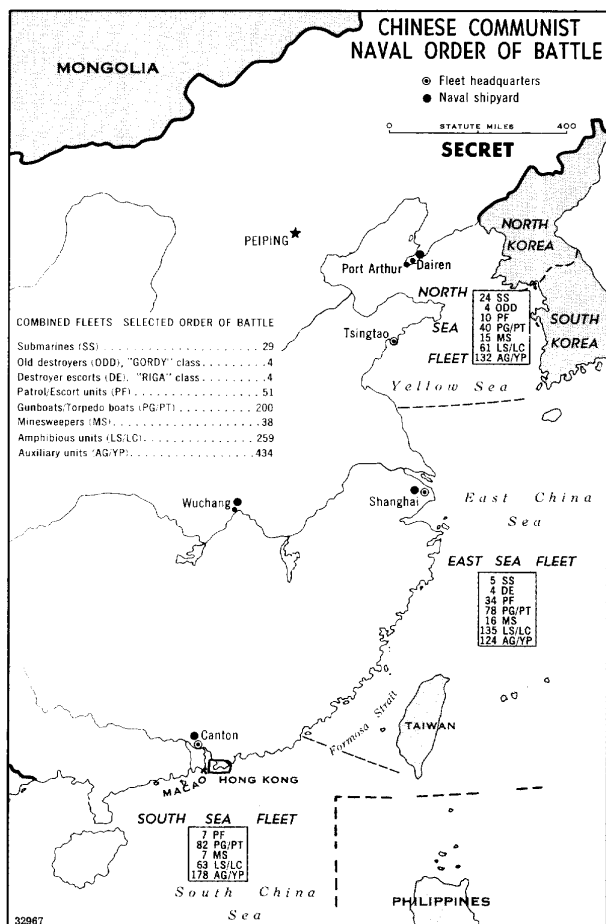
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A Soviet W-Class Submarine Similar to Chinese-Assembled Units, 1959.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

class destroyers. The South Fleet is the weakest of the three, its largest vessel being a patrol escort type.

The fact that no major vessels have been transferred to the South Sea Fleet probably reflects Peiping's apprehension about sending them through the

Taiwan Strait, where they could be attacked by the Nationalists' navy and air force.

Submarine Forces

The submarine force is the largest and most important component of the Chinese Communist Navy. It now has 28 (possibly 29) submarines, of which 21 (possibly 22) are of the more modern, long-range W class. All of the operational W-class submarines seem to have been based at Tsingtao and Dairen in the North Fleet area, with a few older S-1 and M-V units at Shanghai.

Probably the most significant indication of the limited capability of Chinese Communist submarines is the absence of any confirmed instances of extended seaward patrols or movements farther south than the Choushan Island area, well north of the Taiwan Strait.

Capabilities

The Chinese Communist Navy has the primary function of guarding China's extensive coastal area. It can maintain limited coastal patrols, engage in mine-laying operations, and employ motor torpedo boats against hostile vessels operating near shore. It does not have the experience to engage in deepwater operations distant from its bases. This severely limits the effectiveness of its relatively large submarine fleet, which otherwise could be considered much more of an offensive threat. (SECRET NO FOREIGN DISSEM)

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****TURKEY'S FIRST FIVE-YEAR PLAN**

Turkey will be making its first systematic effort to mobilize its resources when it officially puts its Five-Year Plan for economic development into effect on 1 March. Most of the funds needed to finance the \$6.6 billion-plan--expected from both foreign and domestic sources--are still to be obtained, however.

Background

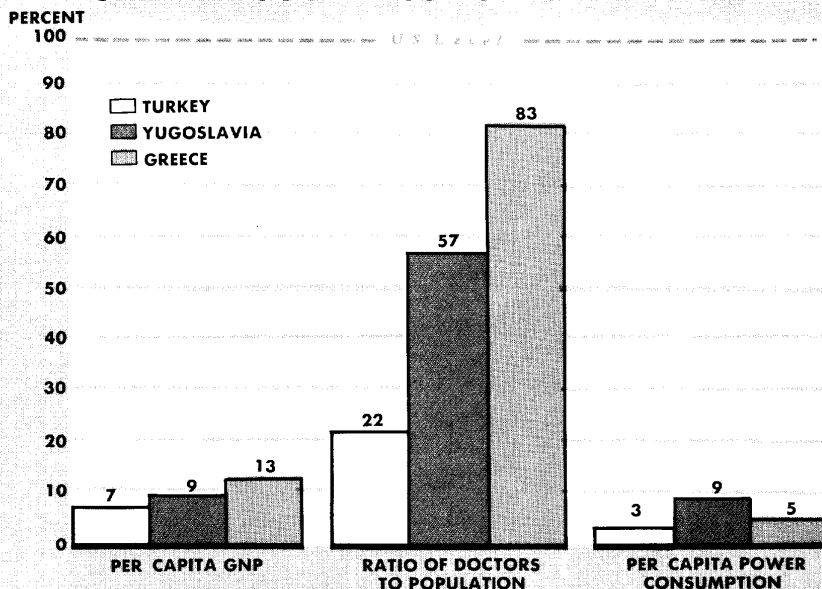
Turkey's mineral and agricultural resources could support a considerably higher living standard than now prevails. The economy has been sluggish, with gross national product rising by an average of only three percent annually in the past five years. Heavy government investment and massive foreign aid have not provided self-sufficiency either in food or in simple consumer goods.

Wartime disruptions, political upheaval, and a succession of disastrous droughts imposed severe strains on the economy during a time of explosive

population growth. In the 1950s the Menderes government piled up a staggering debt burden while trying to stimulate the economy by forced-draft methods, but failed to achieve balanced progress.

After the 1960 revolution, the country's new military leaders adopted an entirely new approach. They established a planning organization charged with preparing an integrated program for economic growth. They also stabilized the lira, trimmed the government's civil spending, scrutinized the tax system, and drafted changes in fiscal legislation.

Political instability has impeded this approach. Since the 1961 elections Premier Inonu has headed two shaky coalitions. Conflicts within his current three-party coalition caused the Five-Year Plan's original tax recommendations to be considerably watered down. The resurgence in 1962 of the Justice Party, now in opposition and harboring most of the former

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

Menderes supporters, poses a threat to hopes of increasing taxes to the level needed to support the plan. Nevertheless, the plan itself passed Parliament intact.

Main Features

The plan aims to achieve a seven-percent annual growth in gross national product. The rate of investment would rise from the current 15 percent to about 18 percent of GNP. The plan is cast within the framework of a broad set of social and economic goals to be achieved by 1977, by which time GNP is expected to have risen by about 175 percent. The rapid population growth, however, will hold the rise in per-capita income to 78 percent.

The plan is designed to stimulate private investment. During the five-year period, about 40 percent of the investment total, or \$2.7 billion, is expected from private sources, and changes in tax and credit policies are intended to increase domestic private investment at a faster rate than public investment. In an effort to encourage the flow of personal savings into business, a local money market in which securities may be traded is

also to be established. Private investment is to be directed especially into light manufacturing which will benefit the general economy.

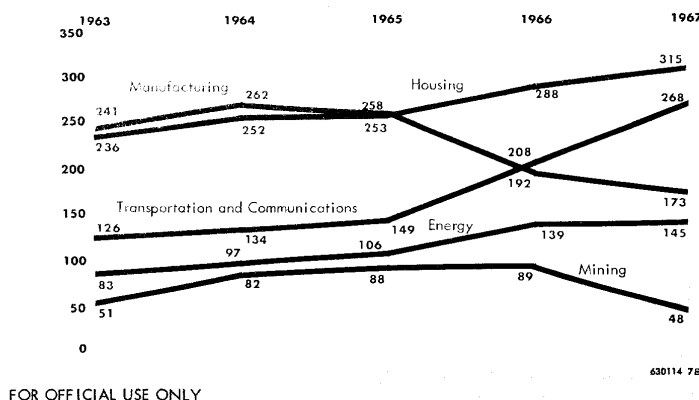
The need to meet immediate social problems underlies many of the plan's objectives. Programs in agriculture, manufacturing, education, and housing are designed partly for their impact on the unemployment problem. Top priority goes to housing, in view of the serious shortage of low-income dwellings. New health facilities will be built and extended to areas meagerly served now.

Expanding Production

In agriculture, still the bulwark of Turkey's economy, it is intended wherever possible to shift production from subsistence crops to such high-value crops as cotton and truck-farm products that can be sold to mass markets abroad. Irrigation will be increased in the more arid sections of the country.

In manufacturing, the government will try to achieve national self-sufficiency in many items now imported. An integrated steel plant is projected for Eregli in north-western Turkey.

TURKEY'S FIRST FIVE-YEAR-PLAN, 1963-67
GROSS INVESTMENT IN THE MAJOR SECTORS
(MILLION DOLLARS AT 1961 PRICES)

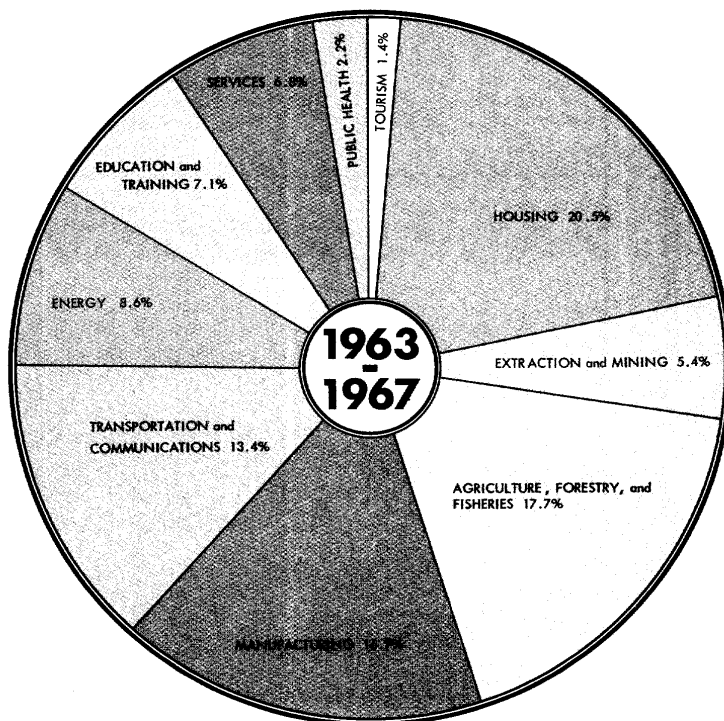


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CURRENT INTELLIGENCE WEEKLY SUMMARY

**Allocation of Investments in Turkey's
First Five-Year Plan**

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In addition, the government plans to raise nonferrous mining production, in response to world demand patterns, both through increasing operating efficiency and opening new facilities. The state seeks to extend and rehabilitate the rail and telecommunications system it owns and, in order to meet anticipated growth in demands from industry and rural electrification projects, to increase power output by 83 percent in five years.

The relatively new field of tourism also receives attention. The number of tourists visiting Turkey has shown an annual increase of about 13 percent recently. Through

construction and modernization of tourist facilities, it is hoped that by 1967 tourism will provide a significant source of foreign exchange.

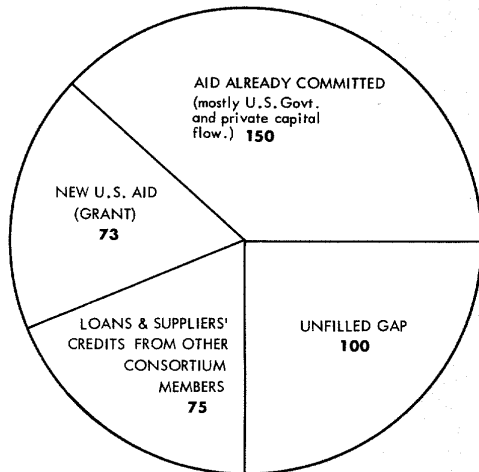
Paying the Bill

A flow of funds sufficient to meet planned investment schedules is not yet assured. The Turks estimate that they can finance about \$4.8 billion, nearly three quarters of the plan's investment requirements, from their own resources. Since political objections resulted in the abandonment of many of the plan's original tax reform recommendations, increased revenue stemming from a growth in income rather than a high rate

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

FOREIGN AID PLEDGED FOR TURKEY'S FIRST FIVE-YEAR PLAN
1 JANUARY 1963
(million dollars)



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structure now is relied upon to provide most of the needed funds. New taxes, particularly on agriculture, together with devices such as a "declaration of wealth," and a forced-savings plan, will make up the rest.

Ankara has been disappointed in the foreign response to its need to close the \$1.8-billion gap between investment goals and Turkish resources. Turkey's Western allies agreed in principle to help underwrite the plan's costs, and last year a consortium consisting of the six EEC countries plus the US, Britain, Canada, Sweden, and Austria was formed to provide an "assured flow" of aid during the five-year period. In the first "pledging" session held in December, however, the amount of aid offered fell far short of what the Turks had planned on, and much of this was on terms the Turks felt would be of little help. As a result of American and German prodding, the consortium is reconsidering the problem.

The Turks also face the problem of continuing to service their \$1.4-billion foreign debt during this period. The highest repayments and interest charges fall due in the plan's first two years--\$173 million in 1963 and \$100 million in 1964.

Outlook

It now appears that some scaling down of goals will be necessary. At the level of investment within reach, an annual growth rate of five, rather than seven, percent might still be achieved.

Despite the loss of some of the anticipated financial support, several favorable developments in recent months are likely to strengthen Turkey's economy. Substantial foreign exchange savings may soon be realized in the country's fuel bill due to growing crude-oil production. The outlook has also improved for Turkey's admission to associate membership in the EEC. If current negotiations succeed, this would expand markets for many agricultural and mineral exports. Earnings from tourism and other invisibles are rising at an encouraging rate. If such trends continue, enough confidence might be stimulated both at home and abroad to increase the flow of capital into Turkish development.

Much will depend on the government's success in selling the public on the merits of the plan in its early stages by producing visible accomplishments, as in housing and rural electrification. If Turkey's peasants become convinced of the plan's importance to the country, they would support it with the fervor they bring to any national effort.

On the other hand, the loss of psychological momentum involved in a trimming of goals would make the surmounting of the plan's many difficulties all the more formidable. Prolonged indecision might even spark a reaction that would overturn the Inonu regime.

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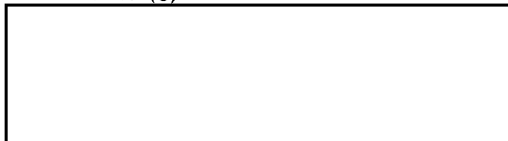
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